Alberta

Freedom To Create. Spirit To Achieve.

BUDGET 2010

Striking the Right Balance

Second Quarter Fiscal Update 2010–2011

Government of Alberta

November 2010

UPDATING ALBERTANS

The *Second Quarter Fiscal Update* consists of two parts – the updated 2010–11 forecast for the entire fiscal year and the actual results for the first six months of the fiscal year (April 1 to September 30, 2010).

TABLE OF CONTENTS

2010–11 FORECAST

Highlights 1
- Fiscal Summary 1
- Alberta Sustainability Fund 1

Revenue 2
- Revenue 3

Expense 4
- Expense Summary 5
- Expense by Ministry 5

Capital Plan 6
- Capital Plan Summary 6
- Capital Grants and Other Infrastructure Support 7
- Capital Investment and Amortization 7

Net Financial and Capital Assets 8
- Balance Sheet 8

Other Tables
- Cash Adjustments 9
- Disaster/Emergency Assistance 9
- 2010–11 Fiscal Year Assumptions and Sensitivities 10
- Net Financing Requirements 10

ACTUAL RESULTS 12
- Consolidated Fiscal Summary 13

2010–11 FORECAST

HIGHLIGHTS

Deficit. Forecast at $5 billion, $257 million higher than estimated in *Budget 2010* and $250 million higher than the first quarter forecast. The deficit is offset by a transfer from the Sustainability Fund.

Revenue. Forecast at $34.1 billion, $127 million higher than the budget, but $475 million lower than the first quarter forecast. Increased revenue from land lease sales, corporate income tax and federal transfers are partly offset by lower personal income tax revenue and investment income, and higher drilling stimulus initiative claims. The decrease from first quarter mainly reflects lower income tax and royalty revenue, partly offset by improved investment income and higher land lease sales revenue.

Expense. Forecast at $39.1 billion, $384 million higher than the budget estimate, but $225 million lower than the first quarter forecast. The increase is mainly due to the provision of disaster/emergency assistance, partly offset by lower capital grant expense. Total expense is net of expected in-year savings of $240 million.

Sustainability Fund. Forecast assets at March 31, 2011 of $11 billion, $2.8 billion higher than the budget estimate, but $266 million lower than first quarter. The higher balance is due primarily to $2.2 billion in cash from 2009-10 fourth quarter results transferred in 2010-11 (after March 31, 2010), and a large positive swing in the energy royalties cash adjustment (see page 9 for details).

FISCAL SUMMARY[a]

(millions of dollars)

	2010-11			
		2nd Quarter	Change from	
	Budget	Forecast	Budget	1st Quarter
Revenue	33,968	**34,095**	127	(475)
Expense [b]				
Program expense				
Operating expense (net of in-year savings)	33,215	**33,256**	41	(14)
Capital grants	4,406	**4,216**	(190)	(206)
Disaster/emergency assistance	-	**534**	534	-
Capital amortization and nominal sum disposals	759	**765**	6	(4)
Debt servicing costs	336	**329**	(7)	(1)
Total Expense	38,716	**39,100**	384	(225)
Surplus / (Deficit)	(4,748)	**(5,005)**	(257)	(250)

[a] Subject to the *Fiscal Responsibility Act*. Does not include changes in results of Crown-controlled SUCH sector organizations or pension liabilities, or revenue and expense of Alberta Innovates corporations. Budget revenue and expense have been increased by $6 million to report recreational licensing fees collected by private issuers on a gross, instead of a net, basis, and decreased by $2 million to eliminate double counting of expense related to secondment of staff to the Alberta Law Enforcement Response Team Ltd.

[b] 2010-11 capital investment (not included in expense): 2,802 | 2,710 | (92) | (158)

ALBERTA SUSTAINABILITY FUND

(millions of dollars)

	2010-11			
		2nd Quarter	Change from	
	Budget	Forecast	Budget	1st Quarter
Assets at Start of Year	14,983	**14,983**	-	-
Cash transferred from 2009-10 fourth quarter results	-	**2,230**	2,230	-
Transfer to offset deficit	(4,748)	**(5,005)**	(257)	(250)
Heritage Fund inflation-proofing	(291)	**(304)**	(13)	(13)
Cash adjustments:			-	-
Capital cash adjustments	(519)	**(545)**	(26)	133
Retained income of funds and agencies	(341)	**(347)**	(6)	(56)
Other cash adjustments	(868)	**(43)**	825	(80)
Assets at End of Year	8,216	**10,969**	2,753	(266)

REVENUE

NON-RENEWABLE RESOURCE REVENUE

Resource revenue is forecast at $7.7 billion, $406 million higher than estimated in *Budget 2010*, but $206 million lower than forecast at first quarter. The increase from budget is due primarily to higher land lease sales, partially offset by higher drilling stimulus initiative claims and lower oil royalties. Resource revenue has been impacted adversely by the higher exchange rate, estimated to average 96.19 US¢/Cdn$, 1.19 cents higher than budget.

Oil sands royalties are forecast at $3.3 billion, an increase of $44 million from budget, but $187 million lower than first quarter. The increase from budget is mainly due to lower operator costs, while the decrease from first quarter is due to lower bitumen prices, related mainly to recent pipeline disruptions, and lower production.

Conventional oil royalties are forecast at $1.8 billion, a decrease of $326 million from budget and $112 million from first quarter, due mainly to the higher exchange rate and recent pipeline disruptions. Oil prices are forecast to average US$79.42/barrel for the fiscal year, $0.67 higher than the budget forecast but $0.58 lower than first quarter.

Natural gas royalties are forecast at $1.9 billion, an increase of $31 million from budget but $51 million lower than first quarter. The increase from budget is due mainly to lower Crown processing costs, partly offset by declining prices and increasing exchange rate. The Alberta Reference Price, used to calculate royalties, is forecast to average Cdn$3.50/gigajoule for 2010-11, $0.75 lower than budget and $0.25 lower than first quarter.

Revenue from bonuses and sales of Crown leases is forecast at $2.1 billion, an increase of $1.4 billion from budget and $234 million from first quarter, due to higher prices per hectare and numbers of hectares leased.

Drilling stimulus initiatives are forecast to reduce revenue by $1.5 billion, $788 million more than the budget estimate and $90 million more than forecast at first quarter, due to a higher-than-expected number of credits being claimed by smaller companies, which are eligible for higher rates, and an increase in conventional oil drilling.

TAX REVENUE

Personal income tax revenue is forecast at $7.5 billion, $1.1 billion lower than budget and $261 million lower than first quarter, mainly due to lower-than-expected 2009 tax year assessment data. This reduces the base used to forecast revenue for subsequent tax years, lowering the 2010-11 forecast by $610 million, and also requires a negative prior years' adjustment of $517 million for overstated 2008-09 and 2009-10 accrued revenue.

Corporate income tax revenue is forecast at $3.7 billion, $577 million higher than budgeted but $310 million lower than forecast at first quarter. Cash instalment payments received from corporations in 2009-10 were much stronger than initially forecast in *Budget 2010*, which increased the 2010-11 first quarter forecast. However, 2010-11 instalment payments have not been as high as expected, lowering the second quarter forecast.

Other tax revenue is forecast at $3.7 billion, $99 million lower than the budget estimate and $9 million lower than first quarter, due to lower fuel consumption, lower natural gas prices, lower-than-expected cash receipts from insurance premiums and lower hotel rates and fewer stays.

TRANSFERS FROM GOVERNMENT OF CANADA

Federal transfers are forecast at $5.5 billion, $412 million higher than the budget estimate but $50 million lower than first quarter. First quarter changes included a higher Canada Health Transfer, due to lower personal income tax revenue, and increases for agriculture and municipal flooding assistance, and training and income supports programs. Second quarter changes include a reduction of $52 million in agriculture transfers due to revised lower participation in the 2009-10 AgriStability program, and an $18 million reduction in other transfers, mainly related to Building Canada grants now being provided directly to municipalities by the federal government.

INVESTMENT INCOME

Investment income is forecast at $1.7 billion, a decrease of $216 million from the budget estimate but $202 million higher than first quarter, mainly as equity markets have rebounded somewhat from the lower-than-expected performance early in 2010.

OTHER REVENUE

Forecast at $4.2 billion, an increase of $174 million from budget and $159 million from first quarter:

- $79 million increase in refunds of expense, mainly for recovery of prior-year capital grants to Alberta Health Services for projects which came in under budget and for over-accrual of 2009-10 physician payments;
- $50 million increase in gaming revenue;
- $49 million increase in ATB net income,
- $21 million increase in crop/hail insurance premiums;
- $19 million increase in Other-Miscellaneous revenue, mainly due to gain on disposal of tax recovery lands;
- A net $44 million decrease primarily due to rescinding of changes to the Seniors Drug Plan.

REVENUE

(millions of dollars)

	2010-11				
		2nd Quarter	Change from		
	Budget	Forecast	Budget	1st Quarter	Main Reasons for Change from Budget
Income Taxes					
Personal income tax	8,648	**7,521**	(1,127)	(261)	Lower-than-expected 2009 assessments
Corporate income tax	3,113	**3,690**	577	(310)	Higher-than-expected 2009-10 cash receipts
	11,761	**11,211**	(550)	(571)	
Other Taxes					
Education property tax	1,592	**1,592**	-	-	
Tobacco tax	880	**880**	-	-	
Fuel tax	760	**725**	(35)	-	Lower consumption
Freehold mineral rights tax	167	**136**	(31)	(2)	Lower natural gas prices
Insurance taxes	330	**300**	(30)	(7)	Lower-than-anticipated 2009-10 cash receipts
Tourism levy	63	**60**	(3)	-	Lower hotel rates and fewer stays
	3,792	**3,693**	(99)	(9)	
Non-Renewable Resource Revenue					
Natural gas and by-products royalty	1,861	**1,892**	31	(51)	Lower costs to process Crown portion
Crude oil royalty	2,137	**1,811**	(326)	(112)	Higher exchange rate
Synthetic crude oil and bitumen royalty	3,249	**3,293**	44	(187)	Lower costs
Coal royalty	35	**34**	(1)	(1)	Lower coal prices
Bonuses and sales of Crown leases	630	**2,054**	1,424	234	Higher prices/number of hectares sold
Rentals and fees	135	**157**	22	1	Higher lease renewal rates
Drilling stimulus initiatives	(732)	**(1,520)**	(788)	(90)	Higher number of credits from smaller companies
	7,315	**7,721**	406	(206)	
Transfers from Government of Canada					
Health transfers	2,072	**2,266**	194	20	Decreased personal income tax revenue forecast
Canada Social Transfer	1,224	**1,226**	2	-	Higher population share
Agriculture support programs	357	**396**	39	(52)	Disaster assistance programs
Other	1,437	**1,614**	177	(18)	Municipal flooding assistance/training and income supports
	5,090	**5,502**	412	(50)	
Investment Income					
Alberta Heritage Savings Trust Fund	1,050	**815**	(235)	131	Weaker-than-expected equity markets
Endowment Funds:					
Medical Research	95	**64**	(31)	24	Weaker-than-expected equity markets
Science and Engineering Research	55	**36**	(19)	15	Weaker-than-expected equity markets
Scholarship	53	**43**	(10)	11	Weaker-than-expected equity markets
Alberta Capital Finance Authority	164	**164**	-	-	
Agriculture Financial Services Corporation	103	**97**	(6)	-	Lower loan balances from higher 2009-10 repayments
Sustainability Fund	285	**400**	115	20	Higher balance
Debt Retirement Account	38	**42**	4	2	Higher expected returns
Other	104	**70**	(34)	(1)	Lower balances
	1,947	**1,731**	(216)	202	
Net Income from Commercial Operations					
Alberta Gaming and Liquor Commission					
Gaming and lottery revenue	1,292	**1,342**	50	50	Higher-than-anticipated activity
Liquor revenue	697	**697**	-	-	
Alberta Treasury Branches[a]	99	**148**	49	21	Lower loan loss provisions/higher interest-rate spreads
Other	9	**10**	1	1	Miscellaneous changes
	2,097	**2,197**	100	72	
Premiums, Fees and Licences					
Supplementary health benefits premiums	104	**58**	(46)	-	Rescinding of Seniors Drug Plan changes
Motor vehicle licences	369	**369**	-	-	
Crop and hail insurance premiums	241	**262**	21	3	Higher participation and coverage levels
Energy Resources Conservation Board levies	115	**115**	-	-	
Timber rentals and fees	34	**33**	(1)	(2)	Lower lumber demand
Land titles	53	**53**	-	-	
Other[a]	342	**344**	2	7	Miscellaneous changes
	1,258	**1,234**	(24)	8	
Other					
Refunds of expense	110	**189**	79	58	Recovery of surplus prior-year Health Services capital grants
Climate Change and Emissions Management	78	**78**	-	-	
Fines and penalties	114	**114**	-	-	
Miscellaneous	406	**425**	19	21	Gain on disposal of tax recovery lands
	708	**806**	98	79	
Total Revenue	33,968	**34,095**	127	(475)	

[a] Budget numbers have been restated to reflect reporting of the estimated $30 million payment in lieu of taxes from Alberta Treasury Branches (ATB) as "Premiums, Fees and Licences – Other" revenue, rather than being included in "Net Income from Commercial Operations - ATB" revenue.

EXPENSE

TOTAL EXPENSE

Total expense is forecast at $39.1 billion, $384 million higher than the budget estimate, but $225 million lower than first quarter. Changes from budget consist of:

- $534 million in disaster/emergency assistance;
- $41 million increase in net operating expense (including $38 million for First Nations settlements, $23 million net decrease in dedicated revenue-operating expense and a net $26 million increase in other operating expense);
- $190 million net decrease in capital grants;
- $1 million decrease in amortization/debt servicing costs.

Disaster/emergency assistance – $534 million increase comprising $228 million for municipal flood recovery and wildfire assistance, $171 million in agriculture support, $120 million for forest fire-fighting costs, and $15 million to combat mountain pine beetle infestations.

Operating expense – $41 million increase, including additional funding for Children and Youth Services programs, student loans, teachers' salaries, First Nations settlements, and training and income support programs funded through increased federal transfers. Partially offsetting these is lower expense in Health and Wellness and Agriculture and Rural Development.

Capital grants – $190 million decrease mainly due to re-profiling health and carbon capture and storage capital grants to future years. These decreases are partly offset by increases for seniors accommodation, health and school projects.

In-year operating expense limit – Operating expense increases, excluding those for First Nations settlements and dedicated revenue-operating expense, are limited by the *Fiscal Responsibility Act* to 1% of total budgeted ministry operating expense. In 2010-11, the limit is $332 million. Increases as of second quarter total a net $26 million.

MINISTRY EXPENSE CHANGES

Advanced Education and Technology – $75 million increase in the provision expense for student loans due to higher-than-anticipated demand.

Agriculture and Rural Development – $80 million increase, consisting of $171 million in disaster support (with $82 million funded by higher federal transfers) and $35 million for 2010-11 AgriStability claims, partly offset by decreases of $119 million, as actual 2009-10 AgriStability claims were lower than booked in 2009-10 (with a corresponding $52 million reduction in federal transfers), and a net $7 million in other programs.

Children and Youth Services – $72 million increase for child intervention pressures, expansion of child care spaces and increased caseloads for children with disabilities.

Education – $65 million increase, comprising $63 million for teachers' salaries, $10 million for the impact on pension costs, $17 million in school capital grants, and a partially offsetting $25 million in departmental savings.

Energy – $63 million decrease, due mainly to re-profiling $60 million of carbon capture and storage capital grants to future years and a $3 million reduction for delays in implementing the Regulatory Framework Assessment.

Health and Wellness – $184 million decrease. Reductions of $232 million related to the lower-than-estimated Alberta Health Services (AHS) 2009-10 deficit, $24 million in amortization and vaccine consumption expense, $13 million in Safe Communities funding (offset by an increase in Justice), and $9 million in capital grants (offset by an increase in Infrastructure), are partly offset by increases of $50 million allocated to AHS emergent pressures and $44 million to fund post-secondary health workforce spaces.

Infrastructure – $157 million net decrease. Reductions of $225 million in health capital grants re-profiled to future years, as Alberta Health Services (AHS) will use cash from prior-year capital grants provided for those projects first, and $8 million in capital for emergent projects transferred to other ministries, are partially offset by increased capital grants of $56 millon for health projects and $20 million mainly for the Wood Buffalo prisoner holding facility. The health grants comprise an additional $47 million for several projects fully offset by funding recovered from AHS from prior-year capital grants for projects which came in under budget, and $9 million offset by lower capital grants in Health and Wellness.

Municipal Affairs – $228 million increase in flooding and wildfire disaster assistance.

Seniors and Community Supports – $55 million increase mainly for Affordable Supportive Living Initiative projects.

Sustainable Resource Development – $149 million increase comprising $135 million for fighting forest fires and mountain pine beetles and $14 million nominal sum disposals of tax recovery lands to several municipalities.

Other Ministries – $71 million net increase:

- $50 million increase for two First Nations settlements;
- $26 million increase for federally-funded employment, training and income supports programs;
- $19 million decrease mainly due to the federal government providing grants directly to municipalities;
- $14 million net increase in other ministries.

Debt servicing costs – $12 million decrease, due to lower-than-expected Agriculture Financial Services Corporation borrowing in 2009-10 and interest rates in 2010-11.

EXPENSE SUMMARY

(millions of dollars)

	2010-11			
		2nd Quarter	Change from	
	Budget	Forecast	Budget	1st Quarter
Program Expense				
Operating expense [a]	33,455	**33,519**	64	37
In-year savings	(240)	**(240)**	-	-
Dedicated revenue/operating expense net changes [b]	-	**(23)**	(23)	(51)
Net operating expense	33,215	**33,256**	41	(14)
Capital grants	4,406	**4,216**	(190)	(206)
Disaster/emergency assistance	-	**534**	534	-
Capital amortization and nominal sum disposals	759	**765**	6	(4)
Total Program Expense	38,380	**38,771**	391	(224)
Debt servicing costs	336	**329**	(7)	(1)
Total Expense	38,716	**39,100**	384	(225)

[a] Prior to dedicated revenue/operating expense net changes and in-year savings. Includes increases totalling $38 million for two First Nations settlements.

[b] Dedicated revenue/operating expense changes – Agriculture and Rural Development: $51.8 million reduction in federal funding for 2009-10 AgriStability program; Employment and Immigration: $25.6 million increase primarily in federal funding for employment, training and income supports programs; Tourism, Parks and Recreation: $1.6 million increase for industry-funded wildfire risk mitigation and increased park use; net increase of $1.4 million in other ministries.

EXPENSE BY MINISTRY

(millions of dollars)

	2010-11				
		2nd Quarter	Change from		
	Budget [a]	Forecast	Budget	1st Quarter	Main Reasons for Change from Budget
Program					
Legislative Assembly	94	**94**	-	-	
Aboriginal Relations	153	**194**	41	-	Bigstone Cree Nation settlement
Advanced Education and Technology	3,226	**3,301**	75	75	Increase in provision for student loans
Agriculture and Rural Development	1,055	**1,135**	80	(92)	Disaster assistance
Children and Youth Services	1,106	**1,178**	72	-	Child intervention/child care spaces/caseloads
Culture and Community Spirit	284	**288**	4	3	Capital grant increase for Art Gallery of Alberta
Education	6,078	**6,143**	65	2	Teachers' salaries and capital grants
Employment and Immigration	1,100	**1,126**	26	-	Employment, training and income supports programs
Energy	457	**394**	(63)	(4)	Carbon capture and storage capital grants
Environment	308	**317**	9	9	Siksika First Nation Bassano Dam settlement
Executive Council	31	**31**	-	-	
Finance and Enterprise	1,082	**1,076**	(6)	(6)	Lower pre-1992 TPP payments/entity costs
Health and Wellness	15,030	**14,846**	(184)	(37)	Lower 2009-10 Alberta Health Services deficit
Housing and Urban Affairs	491	**497**	6	2	Nominal sum disposal
Infrastructure	1,170	**1,013**	(157)	(178)	Re-profiling of health infrastructure capital grants
International and Intergovernmental Relations	24	**24**	-	-	
Justice	479	**491**	12	12	Safe Communities Initiatives
Municipal Affairs	1,030	**1,258**	228	-	Flood and wildfire disaster assistance
Seniors and Community Supports	1,995	**2,050**	55	2	Affordable Supportive Living Initiative capital grants
Service Alberta	280	**282**	2	1	Procurement reengineering initiative
Solicitor General and Public Security	639	**643**	4	-	Increased staffing at correctional facilities
Sustainable Resource Development	312	**461**	149	14	Forest fire fighting/mountain pine beetles
Tourism, Parks and Recreation	176	**174**	(2)	(6)	Lower Travel Alberta expense
Transportation	1,964	**1,945**	(19)	(19)	Federal grants provided directly to municipalities
Treasury Board	56	**50**	(6)	(2)	Transfers to ministries for reengineering initiatives
In-year savings	(240)	**(240)**	-	-	
Total Program Expense	38,380	**38,771**	391	(224)	
Debt Servicing Costs	336	**329**	(7)	(1)	Lower-than-expected interest rates/AFSC borrowing
Total Expense	38,716	**39,100**	384	(225)	

[a] Budget numbers have been restated to reflect the transfer of responsibility for the Agency Governance Secretariat from Executive Council to Treasury Board.

CAPITAL PLAN

2010-11 Capital Plan spending (capital grants and other infrastructure support included in expense, and capital investment in government-owned assets not included in expense) is forecast at $6.9 billion, $282 million lower than the budget estimate and $364 million lower than the first quarter forecast. The decreases primarily reflect the re-profiling of capital projects to future years.

Municipal Infrastructure Support – $1.8 billion, a decrease of $20 million from budget and first quarter, due to Building Canada grants being provided directly to municipalities by the federal government.

Provincial Highway Network – $1.8 billion, $51 million lower than budget, due to decreases of $269 million in 2010-11 from savings on the SE Stoney Trail Calgary ring road P3 and $7 million from re-profiling the NE Anthony Henday Edmonton ring road project, partially offset by increases of $219 million in projects carried over from 2009-10 and $6 million mainly for Parsons Creek work.

Health Facilities and Equipment – $611 million, a decrease of $191 million from budget. Reductions of $225 million due to re-profiling Alberta Health Services (AHS) capital grants to future years, as AHS will use cash from prior-year capital grants provided for those projects first, and $14 million due to transferring electronic health record funding from system development to system implementation (operating expense), are offset by increases totalling $48 million mainly for the Villa Caritas mental health facility.

Post-secondary Facilities – $578 million, unchanged from budget.

Schools – $551 million, an increase of $35 million from budget, consisting of a net $16 million from re-profiling ASAP I and II projects, $12 million as part of the Bigstone Cree land claim settlement, $4 million in capital for emergent projects funding transferred from the government facilities envelope and $3 million transferred from operating expense for ASAP I maintenance.

Community Facilities – $121 million, $3 million higher than budget. Increases of $4 million in projects carried over from 2009-10 and $1 million in capital for emergent projects funding transferred from the government facilities envelope are partly offset by a net $2 million reduction in various other projects.

Water and Wastewater Management – $170 million, an increase of $3 million from budget, mainly for projects carried over from 2009-10.

Housing – $425 million, a $73 million increase from budget comprising $54 million for Affordable Supportive Living Initiative projects, $15 million for Fort McMurray projects and $4 million in capital for emergent projects funding from the government facilities envelope.

Government Facilities, Equipment and Other Capital – $899 million, $134 million lower than budget. Increases consist of $97 million for carried over 2009-10 projects, $10 million for the Wood Buffalo prisoner holding facility and a net $12 million in other projects. These are more than offset by re-profiling to future years $113 million in Information Management and Technology projects and $114 million of carbon capture and storage (CCS) grants and other projects, and by decreases of $9 million in capital for emergent project funding transferred to other Capital Plan envelopes, $12 million in capital planning and CCS funds transferred to operating expense and a net $5 million in other projects.

CAPITAL PLAN SUMMARY

(millions of dollars)

	2010-11			
		2nd Quarter	Change from	
	Budget	Forecast	Budget	1st Quarter
Municipal infrastructure support	1,776	**1,756**	(20)	(20)
Provincial highway network	1,866	**1,815**	(51)	(1)
Health facilities and equipment	802	**611**	(191)	(193)
Post-secondary facilities	578	**578**	-	-
Schools	516	**551**	35	8
Community facilities	118	**121**	3	(2)
Water and wastewater management	167	**170**	3	1
Housing	352	**425**	73	2
Government facilities, equipment and other capital	1,033	**899**	(134)	(159)
Total Capital Plan	7,208	**6,926**	(282)	(364)

CAPITAL GRANTS AND OTHER INFRASTRUCTURE SUPPORT[a]

(millions of dollars)

	2010-11			
		2nd Quarter	Change from	
	Budget	Forecast	Budget	1st Quarter
Aboriginal Relations	-	**12**	12	-
Advanced Education and Technology	578	**578**	-	-
Agriculture and Rural Development	30	**30**	-	-
Children and Youth Services	15	**15**	-	-
Culture and Community Spirit	84	**88**	4	3
Education	513	**536**	23	8
Energy	100	**35**	(65)	-
Environment	94	**94**	-	-
Health and Wellness	96	**73**	(23)	(14)
Housing and Urban Affairs	234	**230**	(4)	(4)
Infrastructure	689	**524**	(165)	(180)
Municipal Affairs	828	**828**	-	-
Seniors and Community Supports	50	**105**	55	2
Tourism, Parks and Recreation	1	**1**	-	-
Transportation	1,084	**1,064**	(20)	(20)
Treasury Board	10	**3**	(7)	(1)
Total	4,406	**4,216**	(190)	(206)

[a] Included in program expense. Includes support for project planning, and accommodation and facility preservation.

CAPITAL INVESTMENT AND AMORTIZATION[a]

(millions of dollars)

	2010-11 Capital Investment				2010-11 Capital Amortization			
		2nd Quarter	Change from			2nd Quarter	Change from	
	Budget	Forecast	Budget	1st Quarter	Budget	Forecast	Budget	1st Quarter
Legislative Assembly	3	**3**	-	-	1	**1**	-	-
Advanced Education and Technology	8	**8**	-	-	6	**6**	-	-
Agriculture and Rural Development	14	**14**	-	-	14	**14**	-	-
Children and Youth Services	2	**2**	-	-	4	**4**	-	-
Culture and Community Spirit	3	**3**	-	-	3	**3**	-	-
Education	1	**4**	3	3	1	**1**	-	-
Employment and Immigration	4	**4**	-	-	3	**3**	-	-
Energy	28	**28**	-	-	21	**21**	-	-
Environment	1	**1**	-	-	22	**22**	-	-
Finance and Enterprise	32	**32**	-	-	11	**11**	-	-
Health and Wellness	78	**78**	-	-	80	**56**	(24)	(24)
Housing and Urban Affairs	68	**90**	22	4	24	**24**	-	-
Infrastructure	407	**417**	10	(53)	82	**82**	-	-
Justice	4	**2**	(2)	-	8	**8**	-	-
Municipal Affairs	1	**1**	-	-	2	**2**	-	-
Seniors and Community Supports	1	**1**	-	-	1	**1**	-	-
Service Alberta	133	**33**	(100)	(113)	52	**52**	-	-
Solicitor General and Public Security	25	**42**	17	-	3	**3**	-	-
Sustainable Resource Development	24	**29**	5	-	16	**16**	-	-
Tourism, Parks and Recreation	21	**22**	1	-	18	**18**	-	-
Transportation	1,881	**1,833**	(48)	1	386	**386**	-	-
Treasury Board	63	**63**	-	-	1	**1**	-	-
Total	2,802	**2,710**	(92)	(158)	759	**735**	(24)	(24)

[a] Capital Investment includes purchases of inventory. Capital Amortization includes consumption of inventory.

NET FINANCIAL AND CAPITAL ASSETS

Net Assets – Forecast at March 31, 2011 to be $35.7 billion, $252 million lower than the *Budget 2010* estimate and $5.5 billion lower than March 31, 2010. Net assets consist of financial assets of $50.5 billion, $4.3 billion lower than at March 31, 2010, capital assets of $19.5 billion, $2 billion higher than at March 31, 2010, less liabilities of $34.3 billion, $3.2 billion higher than at March 31, 2010.

Heritage and Endowment Funds – The forecast book value of Heritage Fund external assets is $14.1 billion, an increase of $305 million from March 31, 2010, due to inflation-proofing. Total assets of endowments and other funds are forecast to be $3.2 billion, $24 million lower than March 31, 2010 and $53 million lower than the budget forecast, mainly due to lower expected returns and budgeted spending commitments.

Sustainability Fund – Assets are forecast at $11 billion at March 31, 2011, $2.8 billion higher than the budget estimate, but $4 billion lower than at March 31, 2010. The increase from budget is due mainly to $2.2 billion from 2009-10 fourth quarter results being transferred from "other financial assets" into the Fund during 2010-11, and a positive swing in energy cash adjustments. The decrease from 2010 is due to withdrawals of $5 billion to offset the deficit and $1.2 billion for various cash requirements and Heritage Fund inflation-proofing, partly offset by the deposit of $2.2 billion in 2009-10 fourth quarter results.

Total Liabilities – Forecast at $34.3 billion, an increase of $3.2 billion from March 31, 2010 and $625 million higher than the budget estimate. The change from 2010 is due mainly to a $1.4 billion increase in liabilities for capital projects, reflecting $1.1 billion in planned direct borrowing and $0.3 billion in P3 projects, a $544 million increase in pension liabilities, and increased liabilities of self-supporting lending organizations, more than offset by increased assets. The increase from budget is due mainly to higher Alberta Capital Finance Authority activity. ACFA increased borrowing is matched by increased loans/assets.

BALANCE SHEET

(millions of dollars)

	at March 31				
	2010	2011			
			2nd Quarter	Change from	
	Actual	Budget [a]	Forecast	Budget	2010 Actual
Financial Assets					
Heritage Fund equity	13,838	14,129	**14,143**	14	305
Self-supporting lending organizations [b]	10,671	11,857	**12,679**	822	2,008
Alberta Sustainability Fund	14,983	8,216	**10,969**	2,753	(4,014)
Endowment and other funds [c]	3,239	3,268	**3,215**	(53)	(24)
Equity in commercial enterprises	2,478	2,629	**2,640**	11	162
Debt Retirement Account	1,107	843	**843**	-	(264)
Other financial assets	8,489	9,127	**6,020**	(3,107)	(2,469)
Total Financial Assets	54,805	50,069	**50,509**	440	(4,296)
Liabilities					
Accumulated debt	1,092	828	**828**	-	(264)
Pension liabilities	9,279	9,823	**9,823**	-	544
Self-supporting lending organizations	10,035	11,044	**11,790**	746	1,755
Liabilities for capital projects	2,889	4,411	**4,313**	(98)	1,424
Other liabilities	7,772	7,558	**7,535**	(23)	(237)
Total Liabilities	31,067	33,664	**34,289**	625	3,222
Net Financial Assets	23,738	16,405	**16,220**	(185)	(7,518)
Capital Assets	17,532	19,573	**19,501**	(72)	1,969
Net Assets	41,270	35,978	**35,721**	(257)	(5,549)
Adjustment for pension liabilities	9,279	9,823	**9,823**	-	544
Net Assets for Fiscal Policy Purposes [d]	50,549	45,801	**45,544**	(257)	(5,005)

[a] Budget numbers have been restated to reflect 2009-10 actual results. The $2.2 billion in cash from 2009-10 fourth quarter results transferred into the Sustainability Fund after March 31, 2010 is reported in "Other financial assets" in Budget numbers.

[b] Includes Alberta Capital Finance Authority and Agriculture Financial Services Corporation.

[c] Includes the Alberta Heritage Foundation for Medical Research Endowment Fund, Alberta Heritage Science and Engineering Research Endowment Fund, Alberta Heritage Scholarship Fund, Alberta Cancer Prevention Legacy Fund, and Alberta Enterprise Corporation.

[d] Under the *Fiscal Responsibility Act*. Excludes pension liabilities, and equity of Crown-controlled SUCH sector organizations and Alberta Innovates corporations.

CASH ADJUSTMENTS[a]

(millions of dollars)

	2010-11			
		2nd Quarter	Change from	
	Budget	Forecast	Budget	1st Quarter
Capital Cash Adjustments				
Requirements				
Capital investment	(2,802)	**(2,710)**	92	158
Principal repayment for alternatively-financed projects	(13)	**(13)**	-	-
Total requirements	(2,815)	**(2,723)**	92	158
Sources				
Capital amortization	759	**734**	(25)	(25)
Net book value of capital asset disposals	2	**7**	5	-
Alternatively-financed capital investment	355	**258**	(97)	-
Alternatively-financed capital grants	80	**79**	(1)	-
Direct borrowing	1,100	**1,100**	-	-
Total sources	2,296	**2,178**	(118)	(25)
Total capital cash adjustments	(519)	**(545)**	(26)	133
Retained Income of Funds and Agencies Cash Adjustments				
Alberta Treasury Branches	(99)	**(148)**	(49)	(21)
Agriculture Financial Services Corporation	(186)	**(191)**	(5)	(5)
Endowment funds	(42)	**15**	57	(16)
Other funds	(14)	**(23)**	(9)	(14)
Total retained income of funds and agencies cash adjustments	(341)	**(347)**	(6)	(56)
Other Cash Adjustments				
Energy royalties	(746)	**206**	952	227
Student loans	(80)	**(92)**	(12)	17
Other	(42)	**(157)**	(115)	(324)
Total other cash adjustments	(868)	**(43)**	825	(80)

[a] Negative cash adjustments are a cash requirement; positive cash adjustments are a cash source.

DISASTER/EMERGENCY ASSISTANCE

(millions of dollars)

	2010-11			
		2nd Quarter	Change from	
	Budget	Forecast	Budget	1st Quarter
Agriculture and Rural Development	-	**171**	171	-
Municipal Affairs (flood and wildfire assistance)	-	**228**	228	-
Sustainable Resource Development				
Forest fires	-	**120**	120	-
Mountain pine beetles	-	**15**	15	-
Total Disaster/Emergency Assistance	-	**534**	534	-

2010–11 FISCAL YEAR ASSUMPTIONS AND SENSITIVITIES[a]

	Sensitivities		Assumptions		
	Change	Net Impact ($ million)	Budget	1st Quarter Forecast	2nd Quarter Forecast
Oil price - WTI (US$/bbl)	-$1.00	-186	78.75	80.00	**79.42**
Natural gas price - Alberta Reference Price (Cdn$/GJ)	-10 cents	-93	4.25	3.75	**3.50**
Exchange rate (US¢/Cdn$)	+1 cent	-215	95.00	96.75	**96.19**
Interest rates	+1%	-141			
3-month Canada treasury bills (per cent)			1.30	1.25	**0.95**
10 year Canada bonds (per cent)			4.05	3.90	**3.25**
Personal income growth (2010 calendar year)	-1%	-127	3.4%	2.4%	**2.8%**
Production assumptions					
Oil sands (000s barrels/day)			1,771	1,775	**1,709**
Conventional crude oil (000s barrels/day)			424	475	**471**
Natural gas (billions of cubic feet/annum)			4,284	4,359	**4,385**
Alberta Wellhead - conventional oil (Cdn$/bbl)			72.20	72.82	**72.34**
Bitumen @ Cold Lake (Cdn$/bbl)			56.38	56.41	**51.51**

[a] Sensitivities are based on the *Budget 2010* assumptions of prices and rates and show the effect for a full 12 month period. Sensitivities can vary significantly at different price and rate levels. The energy price sensitivities do not include the potential impact of price changes on the revenue from land sales. The interest rate sensitivity has two components, an increase in cash interest income and capital loss. When interest rates rise, bond prices go down, causing a capital loss.

NET FINANCING REQUIREMENTS[a]

(millions of dollars)

	2010-11			
		2nd Quarter	Change from	
	Budget	Forecast	Budget	1st Quarter
Net Financing Requirements				
Accumulated debt:				
General Revenue Fund term debt maturities	202	**202**	-	-
School construction loan repayments	37	**37**	-	-
Alberta Social Housing Corporation debt repayment	25	**25**	-	-
Total accumulated debt financing requirements	264	**264**	-	-
Direct borrowing for capital purposes	1,100	**1,100**	-	-
Agriculture Financial Services Corporation term borrowing requirements	470	**470**	-	-
Gross financing requirements	1,834	**1,834**	-	-
Cash applied to accumulated debt repayment	(264)	**(264)**	-	-
Total net financing requirements	1,570	**1,570**	-	-
Financing Completed to Date				
Direct borrowing for capital purposes	-	-	-	-
Agriculture Financial Services Corporation	-	**208**	208	208
Total financing completed to date	-	**208**	208	208

[a] Does not include alternative financing for capital projects (P3s) or financing requirements of Alberta Capital Finance Authority or ATB Financial.

ACTUAL RESULTS

ACTUAL RESULTS

FOR THE FIRST SIX MONTHS OF 2010–11

METHOD OF CONSOLIDATION

This financial summary is prepared on the same basis as used in *Budget 2010*.

The results of all government departments, funds and agencies, except those designated as commercial enterprises, are consolidated on a line-by-line basis. Revenue and expense transactions between consolidated entities have been eliminated.

The accounts of Crown-controlled corporations and provincial agencies designated as commercial enterprises are included on the modified equity basis, the equity being computed in accordance with Canadian generally accepted accounting principles applicable to those entities.

The accounts of the Alberta Innovates corporations and the Crown-controlled SUCH sector organizations such as school boards, universities, colleges, technical institutes, and Alberta Health Services that are controlled by the government are not included in this fiscal summary. These Crown-controlled entities are consolidated on a line-by-line basis in the consolidated financial statements forming part of the Government of Alberta Annual Report.

BASIS OF FINANCIAL REPORTING

The consolidated fiscal summary reports revenue (including gains and losses from sale of capital assets), expense (including amortization of capital assets), and surplus (deficit).

Revenue and expense are recorded using the accrual basis of accounting. Cash received for goods or services which have not been provided by period end is recorded as unearned revenue.

Expense includes the province's cash payments towards the unfunded pension liabilities. Expense excludes the change in the unfunded pension liabilities, which is a non-cash expense that does not affect borrowing requirements.

Debt servicing costs include interest payable and amortization of discount on debt issues.

Comparative 2009-10 figures have been restated where necessary to conform to the 2010-11 presentation.

CONSOLIDATED FISCAL SUMMARY

for the six months ended September 30, 2010

(millions of dollars)

	First Six Months		
	2010-11	**2009-10**	**Change**
Revenue			
Income taxes	5,200	5,983	(783)
Other taxes	1,722	1,684	38
Non-renewable resource revenue	4,207	2,816	1,391
Transfers from Government of Canada	2,280	2,154	126
Net income from commercial operations	1,163	1,177	(14)
Premiums, fees and licences	767	702	65
Investment income	702	2,275	(1,573)
Other	430	360	70
Total Revenue	**16,471**	**17,151**	**(680)**
Expense			
Program Expense			
Legislative Assembly	39	40	(1)
Aboriginal Relations	67	69	(2)
Advanced Education and Technology	1,902	1,664	238
Agriculture and Rural Development	615	890	(275)
Children and Youth Services	582	581	1
Culture and Community Spirit	104	119	(15)
Education	2,939	2,958	(19)
Employment and Immigration	541	552	(11)
Energy	143	176	(33)
Environment	75	86	(11)
Executive Council	12	13	(1)
Finance and Enterprise	525	419	106
Health and Wellness	7,330	5,924	1,406
Housing and Urban Affairs	188	292	(104)
Infrastructure	257	260	(3)
International and Intergovernmental Relations	10	11	(1)
Justice	234	238	(4)
Municipal Affairs	1,165	281	884
Seniors and Community Supports	1,023	950	73
Service Alberta	120	144	(24)
Solicitor General and Public Security	324	318	6
Sustainable Resource Development	265	274	(9)
Tourism, Parks and Recreation	75	85	(10)
Transportation	664	1,155	(491)
Treasury Board	18	19	(1)
Total Program Expense	**19,217**	**17,518**	**1,699**
Debt servicing costs	137	88	49
Total Expense	**19,354**	**17,606**	**1,748**
Surplus (Deficit)	**(2,883)**	**(455)**	**(2,428)**

PRODUCED BY
Government of Alberta
Finance and Enterprise